Neonex International 1972 Annual Report

Neonex International is a major industrial corporation serving the consumer markets, with manufacturing plants and sales locations across the country.

Neonex International Ltd. Interim Report

Six Months Ended June 30, 1972

TO OUR SHAREHOLDERS

The President's report includes brief highlights of the Company's results for the first six months of 1972 and objectives for the future.

The Company's results from continuing operations improved during the first six months of 1972:

- earnings are up 21%
- sales are up 14%

OPERATING RESULTS

Earnings are $1,753,000 or 24¢ per share compared with 1971 earnings for the same period of $1,449,000 or 21¢ per share from continuing operations and $128,000 or 2¢ per share from discontinued operations. Extraordinary non-recurring gains of $668,000 from the sale of investments and fixed assets were also reported a year ago. Sales and revenue for the first half of 1972 are $78,236,000 compared with $68,400,000 from continuing operations for the same period in 1971.

EXPANSION

Heavy emphasis is being placed upon internal growth. Neonex has undertaken a large capital expenditure program allocating in excess of $5.5 million for the extension of our present operations this year compared with $2.6 million in 1971.

The Company's Leisure Division has entered the United States by establishing a travel trailer manufacturing facility in Oregon and a dealer network in the U.S. Pacific Northwest to serve this growth market.

The Neonex Consumer Goods Division has opened five of the additional 13 new warehouse and catalogue outlets planned for 1972. Neonex anticipates having a total of 25 Acme Merchandise Distributor locations in operation across Canada by the year-end.

The Company's Food Division has embarked upon a construction program of eleven new Overwaitea supermarkets in British Columbia. Nine of the new supermarkets will replace existing smaller stores and two will be in new towns.

START UP COSTS WRITTEN OFF

In all of these expansion programs we have not capitalized our start up costs but rather have written them off now against current earnings.

ACQUISITIONS

Midway through the second quarter of this year, Neonex made three cash acquisitions of companies in fields related to our present markets. They include: Dutch Mobil Homes Ltd., Porta-Built Industries Ltd. and Fabco Leasing Ltd.

Dutch Mobil Homes of Winkler, Manitoba, will broaden the recreational vehicle line of our Leisure Products Division and place Neonex in the motor home field for the first time.

Porta-Built Industries and Fabco Leasing will serve to extend our shelter operations through the manufacture, sale, lease and rental of portable industrial shelter accommodation. These companies are serving the fast-growing mining, construction and oil industries throughout British Columbia, Alberta, the Northwest Territories, the Yukon, the Canadian Arctic and Alaska.

JOINT VENTURE

Neonex entered into a joint venture with American Sign & Indicator Company to form a new company called Northern Visual Information Systems. This move will place our Communications Division in the computer-controlled and electronic sign business throughout the country.

FINANCING AVAILABLE

In April, Neonex concluded arrangements for a $20 million line of credit with the Toronto Dominion Bank. At the present time $11 million has been utilized leaving $9 million available for future use.

AMERICAN STOCK EXCHANGE

On June 26, 1972, the shares of Neonex International were called for trading on the American Stock Exchange in New York. Neonex became the first Canadian-owned Vancouver-controlled Company to be listed on Wall Street.

We anticipate this move will offer Neonex greater access to capital markets (both public and institutional), improve acquisition potential and provide a broader investment base.

OBJECTIVES

Personal expenditure on consumer goods and services is expected to increase by between nine and ten percent in both 1972 and 1973. To take advantage of this growing market, Neonex continues to build a strong consumer-oriented Company.

We will strive to improve performance through the following objectives:

- to concentrate on a strong internal growth program through increased penetration of our existing markets with more and newer facilities.
- to continue to direct our efforts toward the personal disposable income segment of the economy where we believe the highest growth potential to be.

Neonex is firmly committed to serve the consumer markets and to participate in their future growth.

James A. Pattison,
Chairman and President.
August 7, 1972.

International
nual Report

EARNINGS

Summary of sales and revenue and earnings from operations during the first six months of 1972.

	Six Months Ended June 30 1972	1971
	(thousands)	
Sales and revenue	**$78,236**	$68,400
Earnings before income taxes	**3,270**	2,893
Provision for income taxes	**1,517**	1,444
Earnings from continuing operations	**1,753**	1,449
Earnings from discontinued operations	**–**	128
Net earnings before extraordinary items	**1,753**	1,577
Extraordinary items	**–**	668
Net earnings	**$ 1,753**	$ 2,245
Earnings per share (cents)		
Earnings before extraordinary items		
From continuing operations	**24**	21
From discontinued operations	**–**	2
Net earnings	**24**	32
Fully diluted earnings per share (cents)		
Earnings before extraordinary items		
From continuing operations	**23**	20
From discontinued operations	**–**	2
Net earnings	**23**	30

The financial statements at June 30, 1971 have been reclassified where applicable to conform with the presentation used in the current year.

These statements are subject to audit and year-end adjustment.

SOURCE AND APPLICATION OF FUNDS

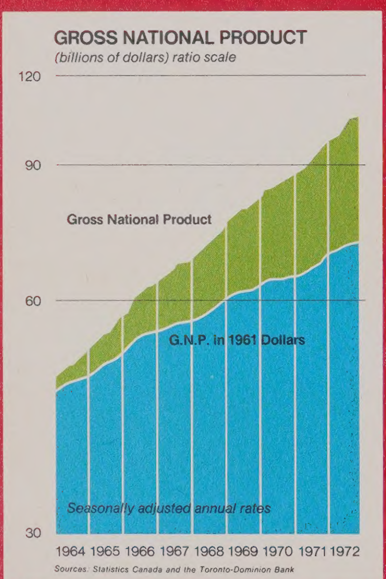
Cash obtained from operating the business and from other sources less amounts spent during the first six months of 1972, representing the change in working capital.

	Six Months Ended June 30 1972	1971
	(thousands)	
Source		
Working capital from operations		
Continuing operations		
Earnings	**$ 1,753**	$ 1,449
Depreciation	**881**	827
Deferred income tax	**465**	108
	3,099	2,384
Discontinued operations		
Earnings	**–**	128
Depreciation	**–**	249
Deferred income tax	**–**	(1)
	–	376
Extraordinary items	**–**	668
	3,099	3,428
Long-term debt issued	**2,190**	295
Property, plant and equipment, less gain	**1,365**	132
Other deferred credits	**185**	(34)
Common shares issued	**53**	–
Decrease in non-current accounts of discontinued operations, net	**–**	4,559
	6,892	8,380
Application		
Purchase of subsidiaries	**1,796**	–
Property, plant and equipment	**2,295**	554
Long-term debt reduction	**1,410**	1,717
Dividend paid	**180**	173
Investments	**14**	(174)
Non-current receivables	**246**	252
Deferred costs	**138**	442
	6,079	2,964
Working capital		
Increase during period	**813**	5,416
Opening balance	**20,324**	14,965
Closing balance	**$21,137**	$20,381

NEONEX INTERNATIONAL LTD.
1055 WEST HASTINGS ST., VANCOUVER 1, BRITISH COLUMBIA, CANADA
The Company is listed on the Toronto, Vancouver and American Stock Exchanges

LITHO. IN CANADA

Neonex International 1972 Annual Report



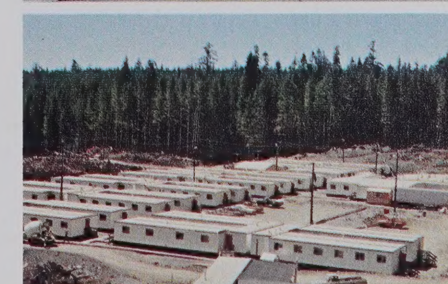
Stimulated by consumer demands for goods and services, the Canadian economy has grown rapidly during the last decade. The Canadian standard of living is the third highest in the world.

Neonex International Ltd.

Neonex International is a major industrial corporation serving the consumer markets with manufacturing, sales and service locations across Canada and in the United States

CONTENTS

1972 Annual Report



HIGHLIGHTS OF OUR YEAR IN BRIEF

Corporate results reflect a sales and revenue increase of 18% to $173.4 million, and earnings from continuing operations increased 24% to $3.6 million. Ordinary earnings per share of 50¢ are 16% above last year's 43¢. The financial position continued to strengthen.
(President's letter on page 2 and Financial Review on page 22)

The Consumer Products division recorded a sales increase of 10% to $120.8 million and earnings rose 23% to $3.0 million. Retail square footage increased by 137,000, including a doubling of the number of Acme Merchandise Distributors outlets to 24.
(Story on page 7)

The Recreational Products and Mobile Homes division experienced a 35% increase in sales to $30 million but earnings dropped 54% to $204,000 as a result of production problems relating to the establishment of two new manufacturing plants and a fire at a third plant which occurred in the first quarter of 1972.
(Story on page 11)

The Service Industries division reported a 52% sales increase to $22 million and an earnings growth of 22% to $1.3 million.
(Story on page 18)

Expansion during the year was strongly oriented toward internal growth with the Company completing a $5.4 million capital expenditure program. An internal capital expenditure program of $7 to $8 million is anticipated in 1973.

TO ASSIST YOU TO KNOW US BETTER

The 1972 Annual Report includes marketing charts which present economic factors related to the Company's present and future market potential. To facilitate interpretation of our financial statements, we have included a summary of our major accounting policies on page 27, and non-technical definitions of the accounting terminology used have been provided on the inside back cover of this report.

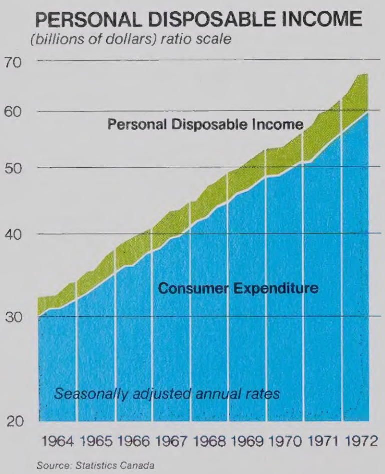
COVER

Neonex, totally committed to growth in the personal disposable income segment of the economy, doubled its consumer product locations in 1972.

To our shareholders

In 1972 the Company continued to maintain its expansion and growth program as indicated by the following results:

- total sales and revenue rose 18% to $173.4 million.
- earnings from continuing operations advanced 24% to $3.6 million.
- ordinary earnings per share increased 16% to 50¢.
- working capital rose 22% to $25 million.
- five new manufacturing plants in Canada and the U.S.
- an increase of 137,000 square feet of retail space.



Consumer spending forms the very core of the North American economy. Both personal disposable income and consumer spending last year continued what has long been a strong growth pattern as disposable income grew 13% and consumer expenditures rose 10%.

EXPANSION

Capital expenditures were $5.4 million in 1972, which saw the size and number of Company manufacturing plants and sales and service locations related to our existing markets, increase in Western Canada and on the west coast of the United States.

Our planned capital expenditure program is expected to be above the 1972 level at between $7 and $8 million with the principal expenditures to be allocated to the Consumer Products division.

SECOND MOVE INTO THE U.S. MARKET

As one of Canada's largest manufacturers of recreational vehicles, the Company made its second entry into the United States market with a new company, Neonex Leisure Products California, Inc., located near Los Angeles. The marketing experience gained in opening our travel trailer plant last spring at McMinnville, Oregon, played a significant part in the decision to strengthen our penetration of the recreational vehicle market in California and surrounding states.

AMERICAN STOCK EXCHANGE

On June 26, 1972, the shares of Neonex International Ltd. were called for trading on the American Stock Exchange. This move has provided the Company with greater access to capital markets, both institutional and public, and a broader investment base.

NEONEX MARKETS

Our Consumer Products, Recreational Products and Mobile Homes, and Service Industries markets, each under the direction of a Group Vice-President, are all strong contenders for future growth, expansion and increased sales potential.

1973 FORECAST

The favorable Canadian economic outlook in consumer buying for 1973 augurs well for the Company. The financial community is forecasting a 10%

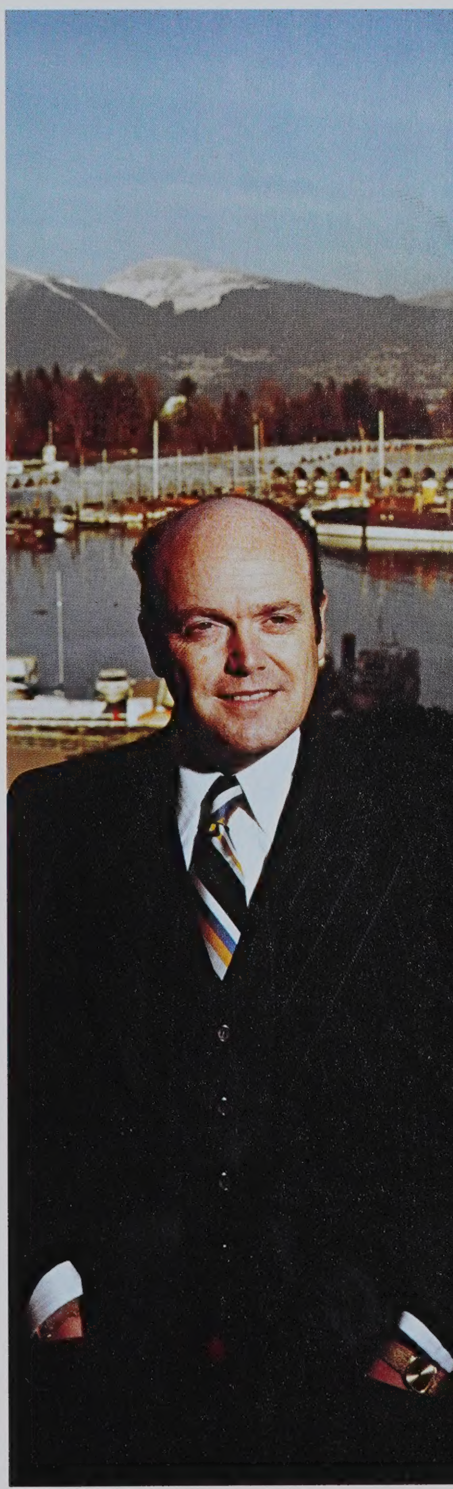
increase in the Gross National Product to around the $113 billion level and increases of over 10% in personal disposable income, consumer expenditures and retail sales this year.

OBJECTIVES

We will strive to continue to improve our performance by concentrating on a strong internal growth program and by directing our efforts towards the "personal disposable income" segment of the economy.

The Company is in the strongest financial condition and has the most favorable sales and earnings potential in our history. Our present position provides a broad base for Neonex in North America, where we are . . . "totally committed to growth."

JAMES A. PATTISON,
Chairman and President.



March 29, 1973

Historical summary

NEONEX INTERNATIONAL LTD. AND SUBSIDIARIES

(dollars in thousands except amounts per share)

For the year	**1972**	1971	1970	1969	1968	1967
Sales	**$172,700**	146,200	128,200	120,800	104,000	87,400
Earnings from continuing operations	**3,600**	2,900	2,800	3,700	3,100	2,600
Earnings before extraordinary items	**3,600**	3,000	1,900	4,600	3,900	3,200
Net earnings	**3,600**	2,800	(6,300)	4,600	3,900	3,400
Cash flow	**7,000**	5,200	400	7,100	5,600	5,300
Dividends paid	**400**	400	300	300	200	400
Return on equity	**14%**	14%	8%	19%	19%	18%
Capital expenditures	**5,400**	2,600	4,300	4,800	2,800	*
Per common share						
Earnings before extraordinary items—						
basic	**.50**	.43	.27	.68	.59	.48
fully diluted	**.48**	.42	.27	.61	.57	.47
Net earnings—						
basic	**.50**	.40	(.91)	.68	.59	.51
fully diluted	**.48**	.39	(.91)	.61	.57	.49
Cash flow	**.97**	.74	.06	1.05	.83	.80
Dividends paid	**.05**	.05	.05	.05	.05	.20
Equity	**3.74**	3.29	2.92	3.98	3.38	2.86
Year end position						
Total assets	**82,300**	68,800	72,000	85,800	50,000	43,400
Working capital	**24,700**	20,300	15,000	18,100	11,000	9,700
Current ratio	**2.2**	2.1	1.5	1.6	1.4	1.5
Shareholders' equity	**27,000**	23,700	20,200	26,900	22,500	18,900
Employees	**3,812**	3,185	3,765	3,936	3,131	*
Shareholders	**6,016**	5,853	5,750	4,050	2,075	2,432
Common shares outstanding (thousands)	**7,215**	7,195	6,936	6,754	5,996	2,229

***Not available.**

Note: The above amounts have been restated for poolings of interests, discontinued operations and stock split.

Divisional sales and earnings

DIVISIONAL SALES *(millions of dollars)*

	1972		1971		1970		1969		1968		1967	
	$	%	$	%	$	%	$	%	$	%	$	%
Consumer Products	121	70	110	75	94	74	87	72	76	73	64	74
Rec. Products/ Mobile Homes	30	17	22	15	19	15	21	17	16	15	12	14
Service Industries	22	13	14	10	15	11	13	11	12	12	11	12
TOTAL	173	100	146	100	128	100	121	100	104	100	87	100

DIVISIONAL EARNINGS CONTRIBUTION* *(thousands of dollars)*

	1972		1971		1970		1969		1968		1967	
	$	%	$	%	$	%	$	%	$	%	$	%
Consumer Products	2977	66	2429	61	2074	62	1854	46	1782	54	1535	57
Rec. Products/ Mobile Homes	204	5	440	11	96	3	1110	28	598	18	370	14
Service Industries	1327	29	1091	28	1157	35	1080	26	910	28	795	29
TOTAL	4508	100	3960	100	3327	100	4044	100	3290	100	2700	100

**Before corporate office expenses, extraordinary items and minority interest.*

Neonex three markets

Consumer Products, Recreational Products and Mobile Homes, and Service Industries

Neonex Group Vice-Presidents: (left to right) Lawrence B. Eberhardt, Service Industries division; Stanley F. Whittle, Consumer Products division and William J. Sleeman, Recreational Products and Mobile Homes division.

CONSUMER PRODUCTS

	1972		1971		CHANGE
	AMOUNT (thousands)	PERCENT OF TOTAL	AMOUNT (thousands)	PERCENT OF TOTAL	PERCENT
Sales	120,800	70	109,600	75	+10
Earnings	2,977	66	2,429	61	+23

One of the foremost factors in the continued growth of Neonex International has been the concentration and expansion of our three markets across the country: Consumer Products, Recreational Products and Mobile Homes, and Service Industries.

In 1972, twelve new Acme Merchandise Distributors branches and catalogue showrooms were opened across Canada, bringing the total of Neonex branches and catalogue showrooms to 24. This represents in less than one year, a growth of 100%, compared to the twelve locations in operation at the end of 1971.

New locations were opened in Hamilton, St. Catherines, two in Winnipeg, The Pas, Edmonton, Red Deer, Calgary, Lethbridge, Kelowna, Kamloops and Surrey.

The 41 year old company plans to open at least another nine new catalogue locations by this Fall, bringing the total Neonex Acme branches to 33 in 1973.

The Neonex catalogue outlets range from 7,500 to 9,000 square feet in size with the front one third of the building for showroom and jewellery display and the balance for on premises inventory warehousing.

Consumer products imported from all points throughout the world by highly qualified and experienced buyers have played an important part in the success of our catalogue operation. Overseas and domestic buying methods are handled efficiently and with maximum speed through our central purchasing division.

During 1972, Acme product lines were expanded to add more quality import items to the fine selection presently offered by the company. Additional major national brand products now appear in our catalogues. Distribution of catalogues is now done geographically, relative to store locations. With membership cards no longer required, catalogues are delivered to all households rather than mailed to cardholders as in previous years.

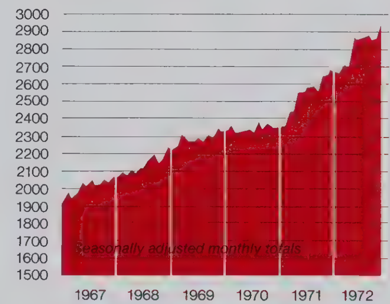
The company produced and printed in excess of five million catalogues which were distributed to Canadian households from Ontario to British Columbia. The two major publications are issued in the Spring and Fall, with a special Christmas catalogue delivered in October.

This concept of quick, convenient catalogue showroom shopping at low distributor prices, has been met with enthusiasm by the Canadian consumer. Although competition will be keen the opportunities for increased growth and sales in this field remain good.

The Neonex tape distributing company in Alberta and British Columbia and the carnival supplies company located across Canada recorded good growth in the past year with each operation making a valuable contribution to profits.

Neonex paint sales in Canada continued to maintain a steady growth for

RETAIL TRADE
(millions of dollars)



Source: Statistics Canada

The growth of per capita income, population, employment and personal disposable income are all reflected in retail sales. This is where the strongest impact of today's consumerism is realized.

Growing in consumer popularity is the quick convenience of catalogue shopping.

Neonex has the sales advantage of being one of the early pioneers in mass catalogue merchandising.

1972 and the Company's percentage increase in both sales and profit was substantially higher than that recorded by the industry.

In 1972 Neonex expanded the number of lines of wallpaper carried and wall covering products are now stocked and distributed in southwestern Ontario, Saskatchewan and Alberta. In 1973 further distribution will be handled through new city outlets in Winnipeg and Saskatoon.

Production facilities in Winnipeg operated at capacity for most of 1972 on a one-shift basis and a second shift was added during peak periods. Additional equipment to further improve manufacturing was added during the year.

Up to the present time, paint production has been designated for private label or Northern Paint dealers, with a small portion of the production sold through company owned retail stores. Plans for 1973 include expansion of these company stores and the manufacturing paint plant at Winnipeg.

The Neonex supermarket chain, Overwaitea Limited, continued its steady growth and again registered record sales and earnings in 1972.

The planned expansion for the year was seriously affected by construction strikes and equipment delays due to factory strikes in Eastern Canada. Despite the delays, major renovations and replacements were completed at six Overwaitea locations. A seventh new store was opened in Williams Lake in January of this year, and the opening proved the most successful ever experienced by the company.

A good deal of this success is attributed to the new management concept of designing and building a store with a theme and motif that fits the atmosphere and tradition of each respective community where the Overwaitea supermarket is located, thus helping to make the store a more pleasant place to shop.

The company has planned several new stores and renovations for 1973. The new supermarkets will be larger than any existing stores to allow for expanded food lines, in-store services such as bakeries, delicatessens and non-food products.

In spite of the increasing cost of all products, services and labour, management will continue to the best of its ability to hold prices at the same favourable levels as maintained over the past 58 years.

In 1972, the Company continued to operate five Prairie Market locations in Greater Vancouver and the Lower Mainland. These operations are showing satisfactory growth, offering the consumer supermarket products at discounted prices.

Since installing an electronic ordering system last year, several additional functions have been computerized at Overwaitea. Most functions to date have been programmed towards store and warehouse operations and inventory control and buying.

Neonex plans to open more new paint stores in 1973 to meet the increased demand by the professional paint contractor and retail customer.

New enlarged supermarket stores built in 1972 served to strengthen our market position.

RECREATIONAL PRODUCTS AND MOBILE HOMES					
	1972		1971		CHANGE
	AMOUNT (thousands)	PERCENT OF TOTAL	AMOUNT (thousands)	PERCENT OF TOTAL	PERCENT
Sales	29,900	17	22,100	15	+35
Earnings	204	5	440	11	−54

In 1973 several other programs will be implemented by expanding existing "in house systems" and installing new programs. These computer systems will provide greater control of gross profits, pricing and shelf allocation for better return on selling space.

The continued success of Overwaitea is due in a large degree to the dedication of the company's employees. Most store and head office management started with the company at the "checkout level" and rose to managerial positions. Neonex continues to place top priority on encouraging young people to make their career in the food merchandising industry.

Over the years Neonex has had considerable success as a leading distributor of periodicals.

In 1972, Neonex strengthened its sales position as a wholesale distributor of magazines and paperback books by purchasing Mountain City News of Hamilton, Ontario. The 65 year old distributor for the Hamilton and Burlington areas has had an impressive growth rate.

This complementary move increases to 1600 the total number of retail outlets serviced by Neonex in Eastern Canada, Northern Alberta-British Columbia-Saskatchewan, the Yukon and the Northwest Territories.

The Company maintained its position in the floorcovering market in the Maritime provinces and recorded satisfactory results during 1972.

In 1972 Neonex increased to 1600 the total number of retail outlets serviced for distribution of periodicals in Canada.

Since announcing its first move into the United States last February, the Company has added new recreational vehicle companies and manufacturing plants both in Canada and the U.S. to broaden our product line of recreational vehicles.

Neonex made its second entry into the recreational vehicle market in the United States in 1972 with its new company, Neonex Leisure Products California, Inc. The company is located 22 miles east of Los Angeles, California.

As a result of this move, Neonex acquired the North American styling rights to the brand names "Dreamer" and "Dreamliner". These lines of mini-motor homes and truck campers, built with fibreglass and conventional bodies, have been on the market since 1957.

This expansion move into the United States has complemented and enhanced our position in the U.S. recreational vehicle market with travel trailers, 5th wheelers, motor homes and truck campers now in production at our plants in California and Oregon. A greater product range and market penetration has been achieved throughout the Western United States.

The Neonex U.S. dealer organization has over 100 locations in the Western United States ranging from Arizona on the East to Washington and California on the Pacific Coast.

Neonex entered the motor home field in Canada for the first time in 1972 by purchasing Dutch Mobil Homes and Triple-E Motor Homes of Winkler,

Helping to meet the strong demand for recreational vehicles in Canada is this Travelaire Royale, one of the thousands of units produced annually by Neonex.

The love affair of the buying public for the big pleasure car is rapidly diminishing. The pleasure vehicle of today and tomorrow is the Recreational Vehicle . . . and we look forward to actively participating in this growth market.

Neonex Recreational Vehicles built in Canada or the United States include: Otto tent trailers; Travelaire, Holidaire, Triple-E, Dutch Swinger, Dreamliner and Boler travel trailers; Dreamer, Rustler, Dutch Swinger and Triple-E truck campers; Rustler, Triple-E, Dutch Swinger and Dreamliner motor homes and Rustler, Triple-E and Splitliner 5th wheelers. The units range from 13 to 29 feet in length.

Shown is a Neonex Housing Industries deluxe Brentwood mobile home with an expando type living room complete with decorated interior, a big seller in 1972.

Manitoba, both well-established companies in the growing recreational vehicle market.

In 1972, the Company announced the construction of a major new recreational vehicle complex in Winkler, Manitoba, not only to replace manufacturing facilities destroyed by fire last spring but also to enlarge our present facilities.

In all of these expansion programs, both in Canada and the United States, Neonex has not capitalized start-up costs, but rather has written them off against earnings for the year.

At the beginning of 1973 Neonex further increased its range of travel trailer models by purchasing Boler Manufacturing in Winnipeg. The company specializes in the manufacture of a lightweight fibreglass travel trailer that is half the weight of a similarly-sized conventional trailer and can be pulled by smaller cars normally not able to tow a trailer of this size. The company has design patents on its exclusive styling.

With six manufacturing plants in Canada and two in the United States, Neonex has a total in excess of one-half million square feet of space for the production of recreational vehicles which range from 13 to 29 feet in length. Start-up has been completed at the Neonex Leisure Products' North Vancouver location to operate a full prototype centre in 1973.

During 1972, Neonex continued to increase its mobile home production through its manufacturing company, Neonex Housing Industries in Calgary, a move which enabled the company to further capitalize and participate in the strong mobile home market in Western Canada.

A new plant layout and a modernization program was undertaken to increase the Company's manufacturing capacity to meet the demands of this steadily growing market. Neonex Housing continued to increase its market share during the year.

The independent dealers of Neonex Housing Industries continued to expand in 1972, resulting in a 53% increase in their purchases. The company is currently enjoying a substantial order bank as a result of dealer acceptance of the company's mobile homes and sales policies.

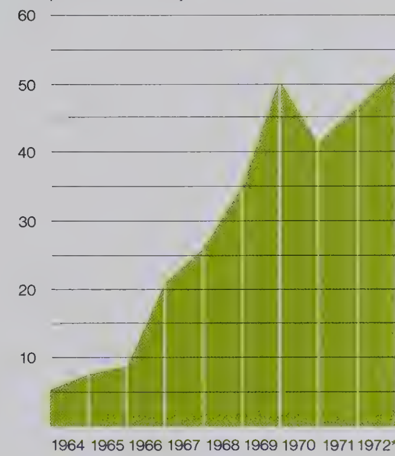
In 1972, Neonex Housing Industries participated for the first time in the annual mobile home show in Toronto where major manufacturers displayed their products for both dealers and the general public. Dealer interest and public reaction to our product was most encouraging.

Neonex is studying plans to establish a mobile home manufacturing plant in Eastern Canada. The Company presently has a mobile home plant located at Calgary, Alberta and a new plant at Winkler, Manitoba.

The Company's retail outlets, United Mobile Homes, continued to make an important contribution to sales.

The outlook in 1973 for both recreational vehicles and mobile homes remains strong.

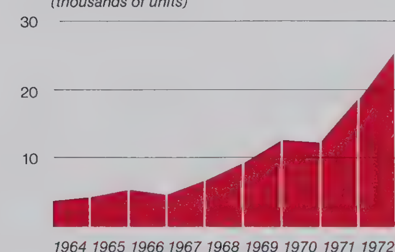
RECREATIONAL VEHICLE PRODUCTION
(thousands of units)



*Estimated
Source: C.M.H.T.T.A.

As personal disposable income has risen faster than basic living costs in recent years consumers have been left with greater discretionary income. This has coincided with increasing amounts of leisure time and a desire for personal mobility. As a result we have experienced rapid growth in the recreational vehicle industry.

MOBILE HOME SHIPMENTS*
(thousands of units)



*Residential only
Source: C.M.H.T.T.A

Increasing costs of construction have made conventional housing beyond reach of increasing numbers of prospective home owners. The economies of mobile home construction have fulfilled a market need and we expect this market growth to continue.

Neonex in North America – TOTALLY COMMITTED TO GROWTH

SERVICE INDUSTRIES					
	1972		1971		CHANGE
	AMOUNT (thousands)	PERCENT OF TOTAL	AMOUNT (thousands)	PERCENT OF TOTAL	PERCENT
Sales	22,000	13	14,500	10	+52
Earnings	1,327	29	1,091	28	+22

The Neonex electrical sign company enjoyed an increased sales volume of 20% over the previous year.

Northern Visual Information Systems Ltd., a joint venture with American Sign & Indicator Corporation, recorded satisfactory results in its first seven months of operation.

The company's "Facelift" Department continues to progress favorably including an important recent contract for the renovation of the Medicine Hat City Hall (as shown on the opposite page). As the sign industry all over North America is being challenged by city planners and others on their ability to create designs which are aesthetically pleasing, it is significant indeed to have a progressive Canadian city entrust us with the appearance of their City Hall.

Plans for 1973 include the expansion of our services into the highly specialized field of commercial interior decor, as it is felt that not only does this fit into our present facelift department, but it is particularly suited to both the facilities of the company and to the talents of a large number of our own people.

During 1972 Neon Products acquired new quarters in Victoria and in December the company moved into a new facility in Edmonton, doubling our manufacuring area in that city. This facility will be able to handle up to three times the volume it was capable of in the past as a result of the larger working area and increased efficiency.

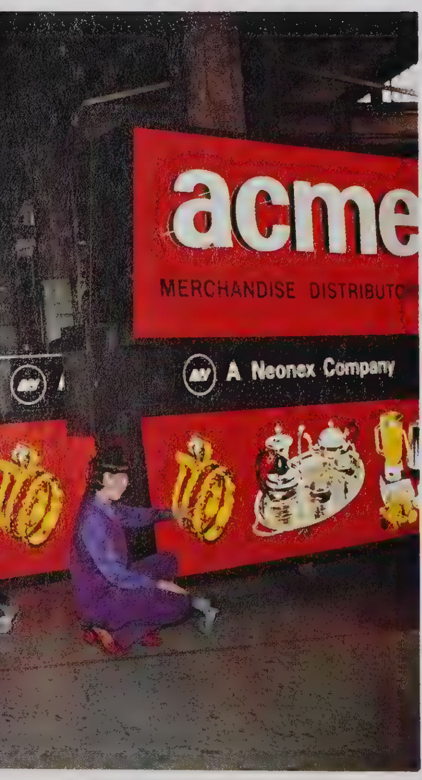
In 1972, the Company entered for the first time into the Industrial Accommodation Service field. As a manufacturer of factory-built accommodation, Neonex is servicing one of the most rapidly expanding industries of the 1970's, the search for Energy and Resources.

The Company is helping to meet the ever-expanding requirements in the search for oil and gas in the high Arctic, Canadian North and Alaska. As the search expands northward, camp manufacturers are facing new challenges . . . severe climatic conditions, off-shore drilling platforms, transportation restriction and pollution controls.

The Company's expertise in supplying quality-built accommodation is meeting this new challenge head-on. The Porta-Built Industries manufacturing plant, located in Edmonton, is engaged in manufacturing factory-assembled buildings on a custom and assembly-line basis for energy and resource community development projects.

Constructed as individual units or as total living complexes, the buildings are engineered to withstand the most extreme conditions from blistering summer heat to the winter's Arctic blizzards. Factory-built accomodations range from office buildings, dining rooms, complete camp facilities, sewage treatment plants to motels, schools and hospitals.

In 1972, the majority of sales were made to the oil industry for their exploration work in the high Arctic, Alaska and Mackenzie Delta.



Another fine example of Inter-Company business within the Neonex corporation are these electrical signs, manufactured for consumer locations across the country.

Medicine Hat City Hall built in 1905.

When completed by the Company's "facelift renovation department" the same Medicine Hat City Hall will look like this.

With its large fleet of helicopters Neonex is servicing one of the most rapidly expanding industries of the 1970's, the search for Energy and Resources in the Canadian Northwest, Alaska and the Arctic.

Neonex covers the entire industrial accommodation service field. The Company services, leases, rents and sells its own factory-built units ranging from portable office buildings to complete 1200 man campsite accommodations.

Neonex, through its service company, Fabco Leasing, also leases, sells and rents accommodation units to oil, gas, forest, mining and construction companies in British Columbia, Alberta, the Northwest Territories, the Yukon, the Mackenzie Delta and Prudhoe Bay in Alaska.

With a present inventory of over 700 lease and rental units, the company covers the entire field of industrial accommodation service from bedrooms and special exploration equipment to self-contained units ranging from 20 man to 1200 man campsite accommodations.

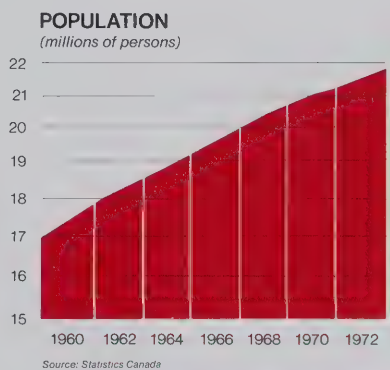
Buildings are supplied fully equipped, ready for occupancy and are barged to site, shipped by road or rail and even flown in by helicopter and/or Hercules Transport. The company markets these buildings through sales and leasing offices located in Vancouver, Edmonton and Prince George.

The helicopter industry in Canada saw 1972 as one of the most challenging and competitive years yet experienced. The planned northern road and pipeline program has been slower in developing than anticipated, due to delays by the government in implementing ecological guidelines and regulations in land use for the protection of the environment.

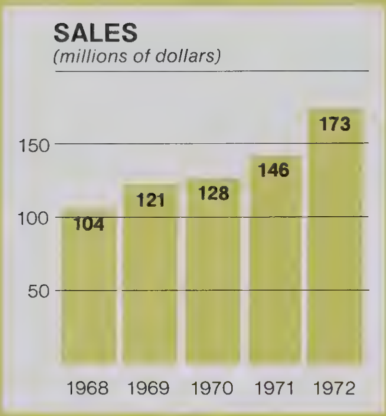
Associated Helicopters is continuing to plan for this increasing market with the addition in 1972 and 1973 of more jet powered helicopters in the medium and heavy haul class. The Company's first twin engined jet helicopter, a Bell 212, 15 passenger, is now in service and working to expectations. This aircraft, one of 25 owned by Neonex, with its twin engined reliability, is well suited to offshore oil drilling support and is opening up international potential for the Company.

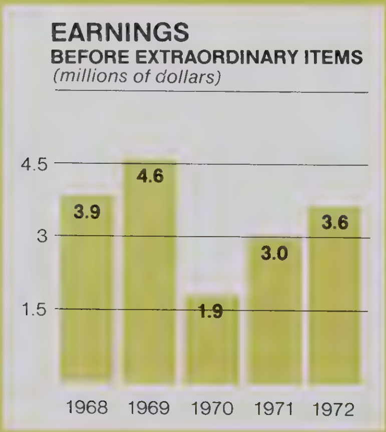
The base at Inuvik was very active in 1972. Additional facilities were constructed and more equipment and personnel assigned. Greater emphasis on the "energy crisis" in North America will help to stimulate more new business for our Company in 1973.

In all of its three markets: Consumer Products, Recreational Products and Mobile Homes, and Service Industries, Neonex is totally committed to growth.



The market for consumer goods in Canada comprises the entire population. Canada's population is growing faster than any other industrialized nation in the world.





SALES AND EARNINGS

The Company has experienced a year of strong sales performance in all divisions and the growth pattern established over the past five years continues. Increased earnings have been recorded in the areas of Consumer Products and Service Industries. However, for Recreational Products and Mobile Homes, earnings have been adversely affected by production problems relating to the start-up of new plants near Portland, Oregon and Los Angeles, California as well as the destruction by fire of the Company's facilities at Winkler, Manitoba.

The competitive business environment that currently exists, together with rising wage and product costs, continue to keep pressure on profit margins.

Total Neonex sales and revenue of $173.4 million is up 18% from the previous year and earnings from continuing operations of $3.6 million have risen 24%. Ordinary earnings per share of 50¢ are 16% higher than 1971's 43¢. There are no extraordinary items this year, compared with an extraordinary loss last year of 3¢ per share.

FINANCIAL POSITION

The Neonex financial position continued to strengthen during the year. Working capital has increased by 22% to stand at $24.7 million and current assets are 2.2 times current liabilities. The generation of funds from operations of $7.0 million and the disposal of certain property, plant and equipment amounting to $2.2 million has provided more than the necessary funds to complete an internal capital expenditure program of $5.4 million.

Total assets are $82.3 million compared with $68.8 million in 1971.

Shareholders' equity has risen to $27.0 million or $3.74 per share. Comparative figures for December 31, 1971 were $23.7 million and $3.29 per share respectively.

LINES OF CREDIT

The Company has extended its lines of credit with its banker to $30 million. At year-end, a $10 million term loan was outstanding which under our arrangements with the bank, may be increased to $15 million. The operating portion of the credit was not being utilized at December 31, 1972.

RETURN ON EQUITY

A return on equity of 14% was earned for the year, a rate similar to that experienced last year.

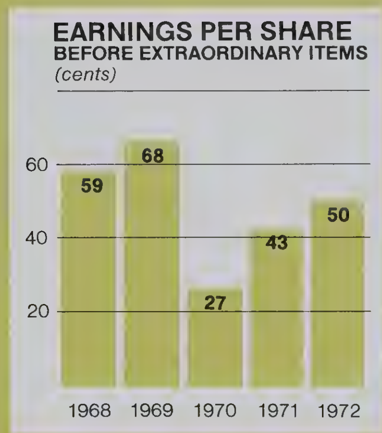
THE ECONOMIC SETTING

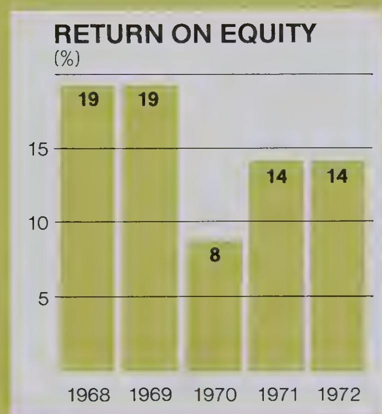
The economic setting for 1973 is encouraging. While continued concern about inflation is likely to lead to higher interest rates as the year progresses, worthwhile growth is expected in each of the Company's market areas.

Earnings

NEONEX INTERNATIONAL LTD. AND SUBSIDIARIES

	YEAR ENDED DECEMBER 31 1972	1971
Sales and revenue	*(thousands)*	
Net sales and operating revenue	**$172,700**	146,200
Other income	**700**	700
	173,400	146,900
Cost and expenses		
Cost of sales and operating expenses	**132,300**	111,500
Selling and administrative expenses	**30,100**	25,500
Depreciation	**2,000**	1,500
Interest on long-term debt	**1,600**	1,600
Other interest	**400**	600
	166,400	140,700
Earnings before income taxes	**7,000**	6,200
Income taxes		
Current	**2,000**	2,300
Deferred	**1,400**	1,000
	3,400	3,300
Earnings from continuing operations	**3,600**	2,900
Earnings from discontinued operations	**—**	100
Earnings before extraordinary loss	**3,600**	3,000
Extraordinary loss	**—**	200
Net earnings	**$ 3,600**	2,800
Per share data—Note 12		
Earnings before extraordinary loss	**50¢**	43¢
Extraordinary loss	**—**	3¢
Net earnings	**50¢**	40¢
Cash dividends	**5¢**	5¢





Retained earnings

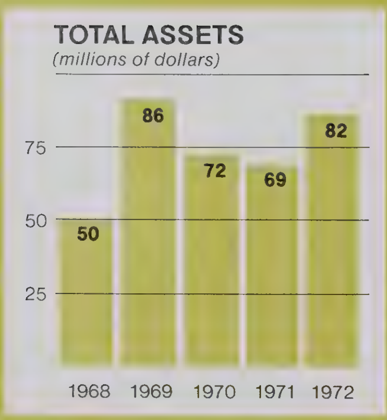
	1972	1971
Opening balance	**$ 17,900**	15,500
Net earnings	**3,600**	2,800
	21,500	18,300
Cash dividends paid (5¢ per share each year)	**400**	400
Closing balance	**$ 21,100**	17,900

Balance sheet

NEONEX INTERNATIONAL LTD. AND SUBSIDIARIES

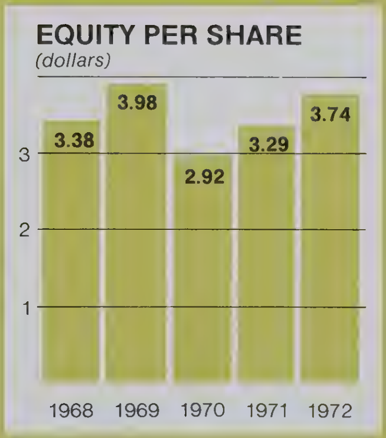
ASSETS

	DECEMBER 31 1972 (thousands)	1971
Current assets		
Cash	**$ 2,600**	6,100
Receivables	**14,000**	9,400
Inventories—Note 4	**28,100**	22,400
Prepaid expenses	**600**	500
	45,300	38,400
Other assets		
Receivables	**9,000**	8,100
Investments—Note 5	**3,200**	3,200
Deferred charges	**4,700**	3,100
	16,900	14,400
Property, plant and equipment—Note 6	**20,100**	16,000
	$ 82,300	68,800



LIABILITIES AND SHAREHOLDERS' EQUITY

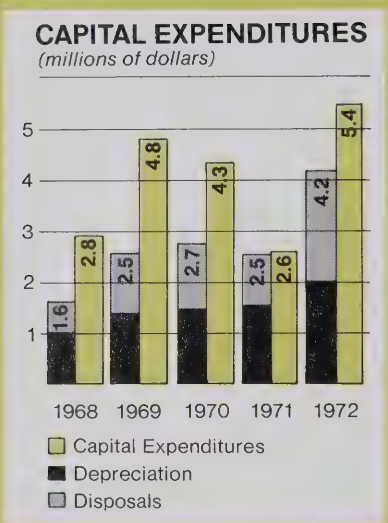
	DECEMBER 31 1972 (thousands)	1971
Current liabilities		
Accounts payable	$ 19,800	16,800
Current maturities	800	1,300
	20,600	18,100
Long-term debt—Note 7	13,700	7,700
Deferred credits—Note 8	6,000	4,300
Convertible notes—Note 9	15,000	15,000
Shareholders' equity		
Common shares—Note 10	5,900	5,800
Retained earnings—Note 11	21,100	17,900
	27,000	23,700
	$ 82,300	68,800

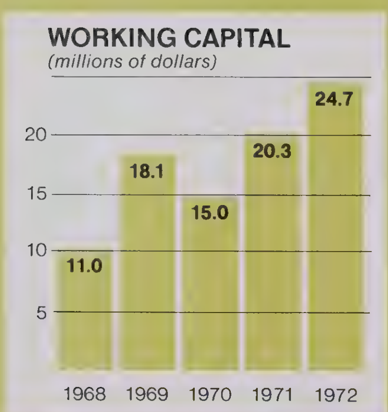


On behalf of the Board

JAMES A. PATTISON, *Director*

JOHN M. THOMPSON, *Director*





Source and application of funds

NEONEX INTERNATIONAL LTD. AND SUBSIDIARIES

	YEAR ENDED DECEMBER 31	
	1972	1971
Source	*(thousands)*	
Net earnings	**$ 3,600**	2,900
Depreciation	**2,000**	1,500
Deferred income taxes	**1,300**	900
Amortization of goodwill	**100**	—
Write-down of non-current assets	**—**	100
Discontinued operations	**—**	400
Extraordinary loss	**—**	(600)
Funds provided from operations	**7,000**	5,200
Long-term debt issued	**6,100**	6,200
Discontinued operations	**—**	4,800
Property, plant and equipment, less gain	**2,200**	1,000
Common shares issued	**100**	1,000
Increase in other deferred credits	**400**	900
Other	**100**	(100)
	15,900	19,000
Application		
Property, plant and equipment	**5,400**	2,600
Net non-current assets of subsidiaries acquired	**1,300**	—
Goodwill on acquisition of subsidiaries	**1,600**	—
Long-term debt reduction	**1,900**	9,100
Non-current receivables	**900**	1,600
Dividends	**400**	400
	11,500	13,700
Working capital		
Increase during year	**4,400**	5,300
Opening balance	**20,300**	15,000
	$ 24,700	20,300

1. PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of the company and all subsidiaries. All material intercompany transactions are eliminated. The accounts of United States subsidiaries have been converted to Canadian dollars at par, which approximates the rate of exchange prevailing since the dates of their incorporation.

2. ACCOUNTING POLICIES

The following is a summary of the major accounting policies used in the preparation of financial statements and other data presented in this report.

Rounding

All dollar amounts, except statutory information, are presented to the nearest $100,000.

Inventories

Inventories of raw materials, work in progress, merchandise and finished goods held for sale are valued at the lower of average laid down cost or estimated realizable value. Manufacturing supplies are included with raw materials.

Leased signs

The financing method is used to account for electric signs which are manufactured by the company and are leased, generally for a term of five years. When a sign is installed, the equivalent outright sale value of a similar sign is included in income and recorded as an account receivable. Manufacturing costs of leased signs are included in cost of sales and related selling expenses are charged against earnings.

The excess of monthly rental payments over the sale value is credited to income when earned and provides for all related expenses and a normal profit. Selling expenses related to future revenue are deferred and amortized as such revenue is earned. The costs of sign maintenance and financing of lease contracts are charged to earnings as incurred.

Goodwill

Goodwill having an unamortized balance of $2,700,000 is classified with deferred charges in the balance sheet. Management is of the opinion that none of the recorded goodwill has diminished in value. However, in order to conform with current accounting recommendations, goodwill having an original cost of $1,600,000 arising from acquisitions subsequent to 1971 is being amortized over 40 years. Goodwill related to acquisitions prior to 1971 having an original cost of $1,200,000 will be written-off if it ceases to be of value.

Financing costs

Costs of obtaining long-term debt financing are deferred and amortized over the term of the financing.

Depreciation

Depreciation is determined at rates which will reduce original cost to estimated residual value over the useful life of each asset. Depreciation on the majority of property, plant and equipment is computed on the diminishing balance method. All material profits or losses resulting from disposal of property, plant and equipment are included in earnings when realized and the carrying value of such assets is removed from the accounts. The exception to this policy relates to sale and leaseback of significant properties when profits are deferred and amortized over the term of the lease.

Maintenance and repairs

Maintenance and repairs are charged to income as incurred except in the case of helicopters where provision is made for overhaul based on hours of use. Renewals and replacements of a routine nature are charged to earnings while those expenditures which improve or extend the useful life of assets are capitalized.

Start-up costs

The costs of establishing new operations, manufacturing plants and retail locations are charged against income in the year incurred.

Income taxes

The company follows tax allocation procedures in recording charges for income taxes. Taxes deferred as the result of claiming for tax purposes amounts different from those recorded in the accounts are charged against current earnings and are recorded in the balance sheet as deferred income tax credits. The timing differences relate to sign lease revenue, depreciation and deferred charges.

3. ACQUISITIONS

During the year ended December 31, 1972 the company acquired four businesses which have been accounted for as purchase transactions. The operations of these businesses have been consolidated from the effective

dates of acquisition. The following is a summary of the disposition of the purchase consideration:

	(thousands)
Total cash purchase consideration	$2,900
Value of net assets acquired	1,300
Goodwill	$1,600

4. INVENTORIES

Inventories are valued at lower of cost or net realizable value.

	1972	1971
	(thousands)	
Raw materials	$ 4,400	2,700
Work in progress	1,400	1,200
Merchandise and finished goods	22,300	18,500
	$28,100	22,400

5. INVESTMENTS

	1972	1971
	(thousands)	
Maple Leaf Mills Limited		
213,100 common shares, at quoted value at December 31, 1970 (current quoted value $3,800,000)	$ 3,100	3,100
Other, at lower of cost or estimated realizable value	100	100
	$ 3,200	3,200

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation.

	1972	1971
	(thousands)	
Land and improvements	$ 3,600	3,800
Assets rented to customers	2,800	—
Buildings	10,000	9,600
Machinery and equipment	15,400	13,000
	31,800	26,400
Accumulated depreciation	11,700	10,400
	$20,100	16,000

Depreciation at the following rates is determined on the diminishing balance method for all property, plant and equipment except assets rented to customers and helicopters which are depreciated on the straight line method.

Buildings	3% to 10%
Machinery and equipment	10% to 30%
Helicopters	8%
Assets rented to customers	10%

7. LONG-TERM DEBT

Long-term debt, excluding current maturities, consists of the following:

	1972	1971
	(thousands)	
Term bank loan at prime rate plus 1½%, payable in seven equal instalments, commencing January 1, 1974	$10,000	4,900
6½% debentures, due 1980, payable $75,000 annually	900	1,000
Mortgages at rates from 6½% to 10¼% due at various dates to 1998	2,300	1,600
Conditional sales agreements	500	200
	$13,700	7,700

Bank indebtedness is guaranteed by subsidiaries and secured by the assignment of accounts receivable, hypothecation of certain securities and a floating charge demand debenture of $15,000,000 on the company's assets. Under the terms of the company's arrangements with its bank, the term loan may be increased to $15,000,000.

Long-term debt maturities are approximately $2,000,000 for each of the four years ending December 31, 1977.

8. DEFERRED CREDITS

	1972	1971
	(thousands)	
Income taxes	$ 2,000	700
Rental deposits and other deferred income	2,000	1,600
Deferred lease costs	900	900
Unrealized foreign exchange gain	1,100	1,100
	$ 6,000	4,300

Additional deferred income taxes of $600,000 ($500,000 in 1971) are classified with current accounts payable as the related timing differences arise from amounts classified as current.

9. CONVERTIBLE NOTES

The 5¾% Convertible Senior Subordinated Notes due 1984 in the principal amount of U.S. $15,000,000 are payable in annual instalments of U.S. $2,500,000 commencing 1979, subject to prior redemption by the company at a premium of 50%. The notes are convertible into 1,271,860 common shares which number may increase in accordance with antidilution provisions.

The carrying value of this U.S. obligation is recorded at par which approximates the current rate of exchange. The unrealized foreign exchange gain included with

deferred credits represents the difference between par value and the Canadian dollar equivalent at the date of issue. The eventual credit to income will depend on the exchange rates which apply when the notes are redeemed.

10. COMMON SHARES

Authorized 14,000,000 shares of no par value; outstanding 7,214,748 shares.

	1972		1971	
	Shares	Amount	Shares	Amount
	(thousands)			
Opening balance	7,195	$5,800	6,936	$4,800
Issued for cash	20	100	259	1,000
	7,215	$5,900	7,195	$5,800

During the year the company issued 20,000 shares to selected key employees for $100,000 cash, paid by a trustee from funds advanced by the company pursuant to the share purchase plan approved by the shareholders. These shares are held by the trustee and will be released to the employees on payment of the subscription price prior to 1977 which will be applied by the trustee to reduce the amount owing to the company. The amount recoverable from the trustee is included with non-current receivables. There are no outstanding rights under the plan.

The company has reserved 1,271,860 unissued shares which may be issued upon conversion of the 5¾% notes.

11. RETAINED EARNINGS

The 5¾% convertible note agreement restricts the payment of dividends to an amount not exceeding $2,000,000 plus consolidated net earnings subsequent to December 31, 1968 (unrestricted amount as of December 31, 1972 is $13,451,000).

12. EARNINGS PER SHARE

Earnings per share are based on the weighted average number of shares (1972—7,200,923; 1971—7,031,750) outstanding during the year. Fully diluted earnings per share are not presented as the assumed conversion of the convertible notes has no material effect on earnings per share in the current year.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Rentals for the year ended December 31, 1972 for leased warehouses, retail locations and advertising sites were $1,600,000. Future average annual rentals under these leases are:

1973-1977	$1,900,000	1983-1987	$500,000
1978-1982	1,200,000	1988-1996	200,000

Purchase commitments for the acquisition of property, plant and equipment amount to $2,000,000.

The company is contingently liable in respect of commercial letters of credit totalling $1,300,000.

Finance contracts sold with recourse approximate $16,000,000 and are secured by mobile homes sold by the company. During each of the five years ended December 31, 1972 the company has not incurred any net expense resulting from these contracts.

A subsidiary is joined with other defendants in an action claiming damages of $1,000,000. The company has obtained an indemnity to the extent of any judgment. Legal counsel have expressed the opinion that the subsidiary's position can be successfully defended.

14. LITIGATION

In 1969 the company acquired 225,600 common shares of Maple Leaf Mills Limited and entered into purchase and option agreements with Norris Grain Company and Leitch Transport Ltd. to acquire an additional 852,911 common shares. Because of a default by Norris Grain Company, the company was not able to complete its contractual commitments.

On June 29, 1971 the company filed suit in the United States District Court for the Southern District of New York against Norris Grain Company and Bruce A. Norris seeking damages of $32,000,000 resulting from the default referred to above. The defendants denied the allegations of the complaint and counter-claimed seeking approximately $2,000,000 damages for the company's alleged breach of its option agreement and $50,000,000 for alleged defamation. The defendants filed a motion for summary judgment which motion was denied in all respects by an opinion of the Court dated March 6, 1972. By consent the company's complaint was amended to state a cause of action for fraud against

the original defendants and Robert C. Vincent, Sr. On the fraud cause of action the company seeks $32,000,000 compensatory damages and $50,000,000 punitive damages. All defendants have answered the amended complaint. The counter-claims made by the original defendants are realleged in their answer to the amended complaint. United States counsel is of the opinion that the company is not liable to the defendants in any respect.

Leitch Transport Ltd. filed suit in the Supreme Court of Ontario against the company seeking damages of $30,000,000 and discontinued its claims against the other defendants named in the writ, namely Norris Grain Company, Norris Grain Company Limited and Bruce A. Norris. The company has denied the allegations and filed a counterclaim for return of option money paid in the amount of $1,154,345. The company has filed a third party claim against Bruce A. Norris, Robert C. Vincent, Sr., Norris Grain Company and Norris Grain Company Limited to recover the amount of any liability to Leitch Transport Ltd. which might be determined by the Court. It is the opinion of both Canadian and United States counsel that the company should be successful in such third party action.

15. RETIREMENT PLANS

Certain employees participate in contributory retirement plans and are entitled to vested interests prior to retirement. Employees contribute specified percentages of their salaries and the balance of the cost is paid by the company. The assets of the plans exceed the pension liabilities, computed by independent actuaries and there are no unfunded past service requirements. Contributions by the company for 1972 were $100,000.

16. STATUTORY INFORMATION

The aggregate remuneration of 10 directors as directors was $50,262 (15 directors in 1971, $51,473); the aggregate remuneration of eight officers as officers was $372,249 (eight officers in 1971, $311,010); four directors were also officers of the company or a subsidiary and as such received $270,700 (five directors in 1971, $264,200).

Auditors' report

We have examined the consolidated balance sheet of Neonex International Ltd. and subsidiaries as of December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia,
March 5, 1973.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

A major market move by Neonex in 1972 was its double entry into the recreational vehicle market in the United States with new company manufacturing plants in California and Oregon.

The Company's list of shareholders continued to grow in 1972 as reflected by the attendance shown at the Neonex Annual General Meeting.

Neonex International Ltd.

BOARD OF DIRECTORS

HARRY B. DUNBAR,
Vice-President Corporate Development,
Neonex International Ltd.,
Vancouver, British Columbia.

RUSSELL A. DUNN,
Industrial Consultant,
Toronto, Ontario.

M. DONALD EASTON,
Partner,
Harper, Grey, Easton & Company,
Vancouver, British Columbia.

LAWRENCE B. EBERHARDT,
Group Vice-President,
Neonex International Ltd.,
Vancouver, British Columbia.

ROBERT W. HALLIDAY,
Chairman of the Board,
Wheelabrator-Frye Inc.,
New York, New York.

MARK N. KAPLAN,
President,
Burnham and Company Inc.,
New York, New York.

EDWARD LAWRENCE,
Financial Consultant,
Toronto, Ontario.

C. STUART MITTON,
Chairman of the Board,
Overwaitea Limited,
Greater Vancouver, British Columbia.

JAMES A. PATTISON,
Chairman of the Board and President,
Neonex International Ltd.,
Vancouver, British Columbia.

JOHN M. THOMPSON,
Chairman of the Board,
Crush International Ltd.,
Toronto, Ontario.

SENIOR OFFICERS

HARRY B. DUNBAR,
Vice-President Corporate Development

LAWRENCE B. EBERHARDT,
Group Vice-President

GUY J. LEWALL,
Vice- President and Secretary-Treasurer

GRIFFITH M. MARSHALL,
Senior Vice-President

JAMES A. PATTISON,
Chairman of the Board and President

WILLIAM J. SLEEMAN,
Group Vice-President

FRED W. VANSTONE,
Vice-President Finance

STANLEY F. WHITTLE,
Group Vice-President

COMMITTEES OF THE BOARD

Finance Committee:
JAMES A. PATTISON, *Chairman*
ROBERT W. HALLIDAY
MARK N. KAPLAN
EDWARD LAWRENCE
JOHN M. THOMPSON

Audit Committee:
ROBERT W. HALLIDAY, *Chairman*
RUSSELL A. DUNN
HARRY B. DUNBAR

Compensation Committee:
JOHN M. THOMPSON, *Chairman*
ROBERT W. HALLIDAY

EXECUTIVE OFFICES

1055 West Hastings Street,
Vancouver 1, British Columbia,
Telephone 688-6764, Area Code 604,
Telex No. 04-507616

BANKERS

The Toronto-Dominion Bank
Vancouver, British Columbia

TRANSFER AGENTS AND REGISTRARS

The Canada Trust Company,
Vancouver, British Columbia;
Calgary, Alberta; and Toronto, Ontario

Bankers Trust Company,
New York, New York

AUDITORS

Peat, Marwick, Mitchell & Co.,
Chartered Accountants,
900 West Hastings Street,
Vancouver, British Columbia

STOCK LISTINGS

Toronto, Vancouver and
American Stock Exchanges

FOLD OUT FLAP FOR GLOSSARY OF SELECTED ACCOUNTING TERMS

ANNUAL MEETING

The 1973 Annual Meeting of the Shareholders of Neonex International Ltd. will be held in the Discovery Room, Bayshore Inn Hotel, in Vancouver at 9:30 a.m. on Thursday, April 26, 1973.

Our "Glossary of Selected Accounting Terms" has been located here for easy reference. When you study the Financial Statements and Notes, simply leave the back cover open and both pages can be checked at a single glance.

NEONEX INQUIRIES

All inquiries concerning Neonex International Ltd. should be directed to Wilfred N. Ray, Director Corporate Communications at corporate office.

Glossary of selected accounting terms

Amortization—systematic allocation of costs to appropriate future accounting periods.

Antidilution Provisions—the price to be received for shares issued to retire the convertible notes will reduce if shares are issued to others below that price.

Capital Expenditures—purchases of property, plant and equipment.

Conditional Sales Agreements—a method of financing whereby legal ownership of the property remains with the seller until final payment is made.

Contingent Liabilities—amounts which the company may be required to pay depending upon future circumstances.

Convertible Notes—an obligation which may be discharged at the holder's option by conversion into common shares.

Current Assets—amounts which will be realized in cash or used in the business within one year.

Current Liabilities—amounts which will be paid within one year.

Current Maturities—the portion of long-term debt to be paid within one year.

Deferred Credits and Charges—income received and expenses incurred which will be allocated to appropriate future accounting periods.

Deferred Income Taxes—income taxes which otherwise would have been payable if the company had not claimed exemptions permitted under the Income Tax Act.

Depreciation—the annual charge against earnings designed to apportion cost of property, plant and equipment over its useful life.

Diminishing Balance Method—a method of providing depreciation which results in successively smaller provisions each year, and when combined with anticipated increased repair costs will result in roughly equal annual charges over the asset life.

Discontinued Operations—businesses previously operated by the company.

Extraordinary Items—profits or losses of significant size which do not arise from the usual business operations of the company.

Floating Charge—a security charge on the assets of the company.

Fully Diluted—a calculation of earnings per share which assumes issuance of shares in repayment of the convertible notes outstanding.

Goodwill—the amount paid to purchase an established business which is in addition to the value of the individual assets acquired.

Indemnity—the right to recover from a guarantor a specific amount that the company may be required to pay.

Long-term Debt—funds borrowed for periods in excess of one year.

Pooling of Interests—a method of accounting in which the assets and liabilities of an acquired business are recorded at their historic costs.

Prepaid Expenses—expenses incurred which will be charged against operations of the following year.

Recourse—a potential obligation which may result from a typical method of financing mobile home sales. If the purchaser defaults, the company is required to repay the financial agency and can repossess the unit.

Redemption—repayment of long-term debt, generally prior to maturity date.

Residual Value—estimated salvage value of property, plant and equipment at the end of its useful life.

Return on Equity—earnings before extraordinary items for a fiscal year divided by the average shareholders' equity for that year and expressed as a percentage.

Shareholders' Equity—amounts received by the company from the issue of shares plus profits retained for use in the business.

Straight Line Method—a method of providing depreciation in an equal amount in each accounting period. It is appropriate when repair costs are anticipated to be approximately equal in each year that the asset is used.

Vested Interests—rights arising prior to normal retirement age whereby an employee may receive a benefit at retirement based on company contributions to the pension plan as well as his own contributions.

Weighted Average—the average number of shares outstanding recognizing that shares are issued at varying times during the year.

Working Capital—the amount by which current assets exceed current liabilities.

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AGENCY PRESS LIMITED
LPIU 331

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